

NEWELL SCHOOL DISTRICT NO. 9-2  
NEWELL, SOUTH DAKOTA

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FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2008

**NEWELL SCHOOL DISTRICT NO. 9-2**

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## INDEPENDENT AUDITOR'S REPORT

School Board  
Newell School District No. 9-2  
Butte County, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **NEWELL SCHOOL DISTRICT NO. 9-2** (the District), Butte County, South Dakota, as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1e to the financial statements, management has not recorded certain general capital assets in the governmental activities and has not recorded depreciation expense on any capital assets of the governmental activities. Accounting principles generally accepted in the United States of America require that those capital assets be recorded as assets and depreciated, which would increase assets, net assets, and expenses in the governmental activities. Based on management estimates, this departure would materially affect the governmental activities portion of the financial statements. However, actual amounts have not been determined.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements for the governmental activities referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the District as of June 30, 2008, and the changes in net assets thereof for the year then ended.

In our opinion, the remaining financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 7, 2009, on our consideration of the District's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11, and the required supplementary budgetary information on pages 35 through 40, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



KETEL THORSTENSON, LLP  
Certified Public Accountants

May 7, 2009

## **NEWELL SCHOOL DISTRICT NO. 9-2**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008**

This section of Newell School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2008. Please read it in conjunction with the District's financial statements, which follows this section.

#### **FINANCIAL HIGHLIGHTS**

- The District's net assets from governmental and business-type activities increased \$276,312 for the year ended June 30, 2008, primarily due to controlling payroll expenses.
- The total cost of the District's programs increased by 3.1 percent during fiscal year 2008, which is primarily due to payroll and related expenses.
- The general fund reported a \$397,038 current year fund balance.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts -- management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short-term and long-term financial information about the activities that the school operates like businesses. The only proprietary fund operated by the District is the Food Service Fund.
- Fiduciary fund statements provide information about the financial relationships -- like scholarship plans for graduating students -- in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

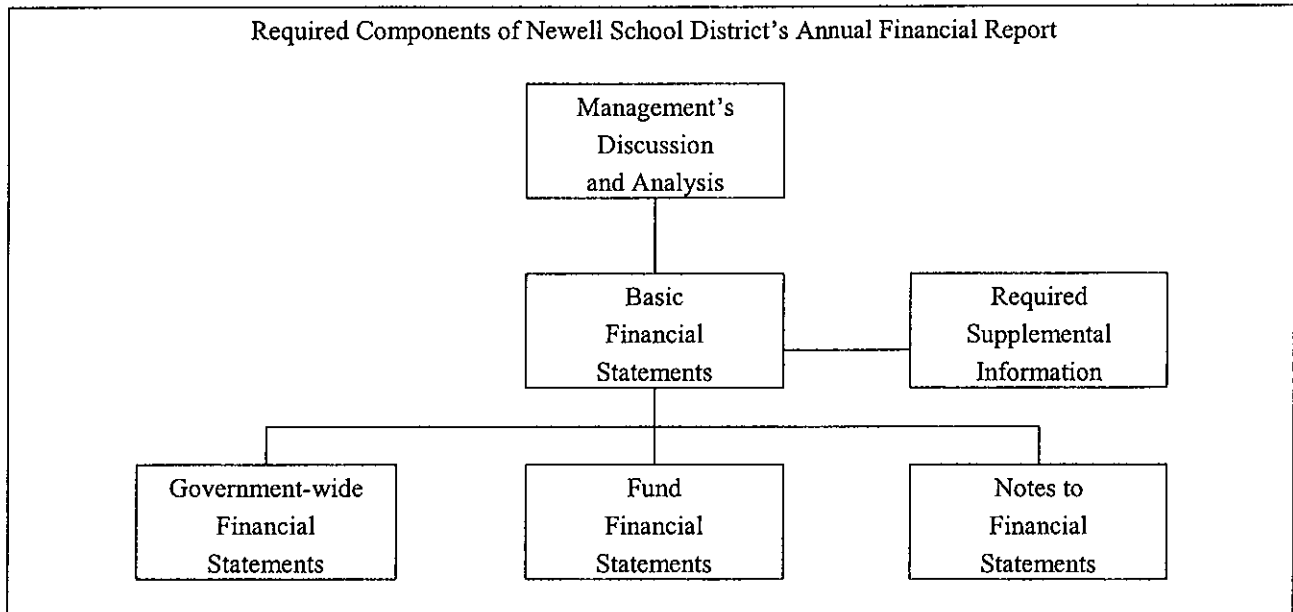
The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2008**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Figure A-1



Government-Wide Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the District are reported in two categories:

- **Governmental Activities** – This category includes the District's basic instructional services (elementary, high school educational programs, etc.), support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.
- **Business-Type Activities** – The District charges a fee to students to help cover the costs of providing lunch services to all students. The Food Service Fund is the only business-type activity of the District.

## NEWELL SCHOOL DISTRICT NO. 9-2

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) JUNE 30, 2008

#### OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

##### Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- State law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes (like the Scholarship Trust).

The District has three kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are greater or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund is the only proprietary fund maintained by the District.
- **Fiduciary Funds** – The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.



NEWELL SCHOOL DISTRICT NO. 9-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

Scope	Government-Wide Statements	Fund Statements		
	Entire District government (except fiduciary funds)	Governmental Funds The activities of the District that are not proprietary or fiduciary, such as elementary and high school education programs	Proprietary Funds Activities the District operates similar to private business - food service	Fiduciary Funds Instances in which the District is the trustee or agent for someone else's resources
Required Financial Statements	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows	Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short- term and long-term; the District's funds do not currently contain capital assets although they can
Type of Inflow/ Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

**NEWELL SCHOOL DISTRICT NO. 9-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2008**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net Assets

This section explains the differences between the current and prior year's assets, liabilities, and changes in net assets. The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of compensated absences payable, early retirement benefits payable and capital outlay certificates payable, have been reported in this manner on the Statement of Net Assets. The difference between the District's assets and liabilities is its net assets.

Table A-1

<b>COMPARATIVE SUMMARIZED STATEMENT OF NET ASSETS</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
Current and Other Assets	\$ 2,553,125	\$ 1,394,860	\$ (7,257)	\$ 8,946	\$ 2,545,868	\$ 1,403,806
Capital Assets	4,700,879	5,765,580	3,385	2,489	4,704,264	5,768,069
<b>Total Assets</b>	<b>\$ 7,254,004</b>	<b>\$ 7,160,440</b>	<b>\$ (3,872)</b>	<b>\$ 11,435</b>	<b>\$ 7,250,132</b>	<b>\$ 7,171,875</b>
Long-Term Debt	\$ 2,624,399	\$ 2,397,382	\$ -	\$ -	\$ 2,624,399	\$ 2,397,382
Other Liabilities	909,548	781,996	2,046	2,046	911,594	784,042
<b>Total Liabilities</b>	<b>3,533,947</b>	<b>3,179,378</b>	<b>2,046</b>	<b>2,046</b>	<b>3,535,993</b>	<b>3,181,424</b>
<b>Net Assets:</b>						
Invested in Capital Assets,						
Net of Related Debt	2,208,695	3,510,783	3,385	2,489	2,212,080	3,513,272
Restricted	1,165,272	195,933	(9,303)	6,900	1,155,969	202,833
Unrestricted	346,090	274,346	-	-	346,090	274,346
<b>Total Net Assets</b>	<b>\$ 3,720,057</b>	<b>\$ 3,981,062</b>	<b>\$ (5,918)</b>	<b>\$ 9,389</b>	<b>\$ 3,714,139</b>	<b>\$ 3,990,451</b>
Beginning Net Assets	\$ 3,600,615	\$ 3,720,057	\$ (4,296)	\$ (5,918)	\$ 3,596,319	\$ 3,714,139
Change in Net Assets	119,442	261,005	(1,622)	15,307	117,820	276,312
Percentage of Change in Net Assets	3.32%	7.02%	37.76%	-258.65%	3.28%	7.44%

Governmental Activities

The decrease in assets for the governmental activities from 2007 to 2008 is due to spending the proceeds from 2007 Capital Outlay Certificates. The decrease in liabilities is due to no new long-term debt obtained in 2008 and required annual principal payments.

Business-Type Activities

The decrease in net assets for business-type activities from 2007 to 2008 is due to expenses exceeding revenue.

**NEWELL SCHOOL DISTRICT NO. 9-2**

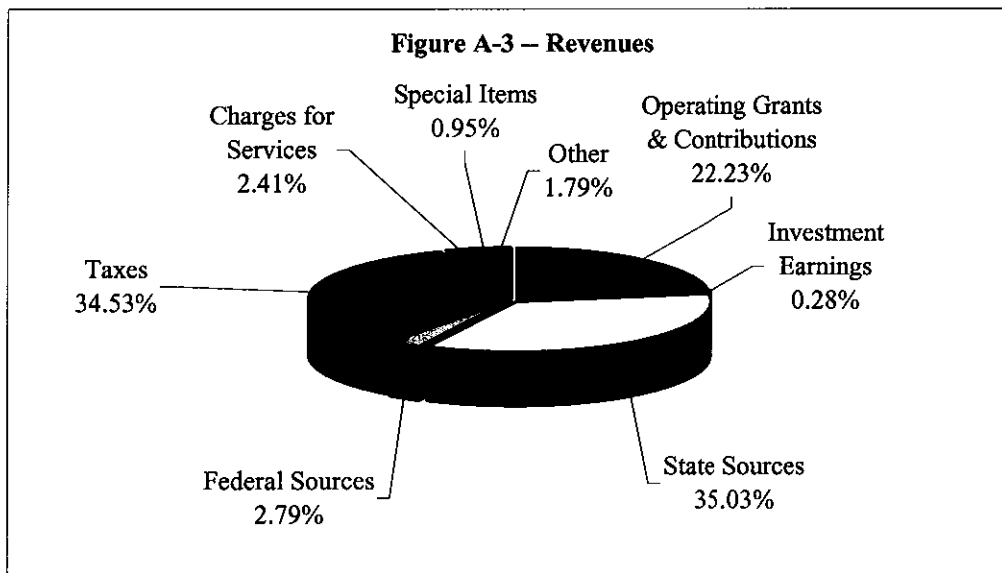
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2008**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

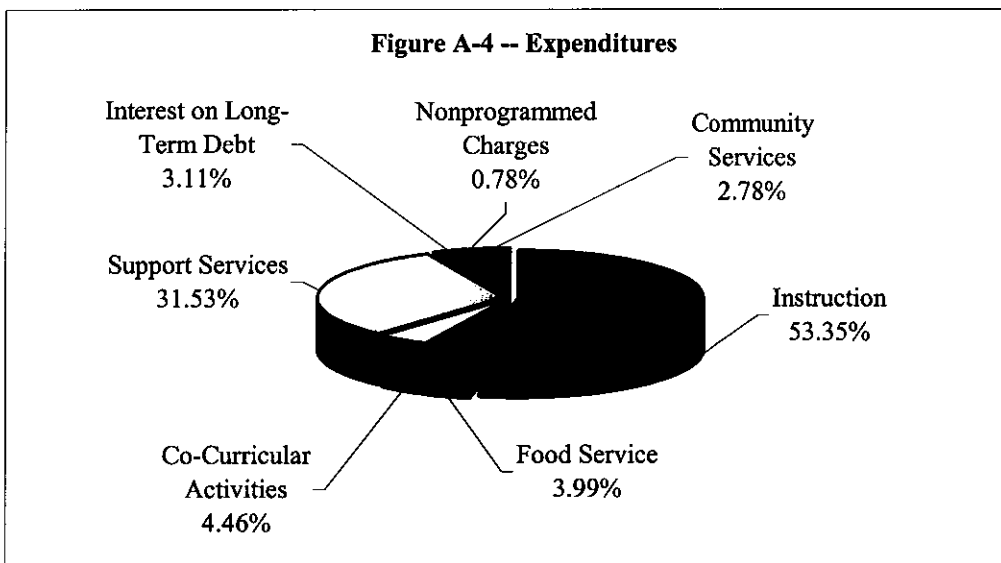
Changes in Net Assets

This section illustrates condensed financial comparison of revenues and expenses and provides explanations for significant differences.

The District's revenues totaled \$3,897,918 for the year ended June 30, 2008. (See Table A-2.) Over one-third of the District's revenue comes from property and other taxes, with another third coming from state aid, and just over a fifth coming from operating grants and contributions. (See Figure A-3).



The total cost of all programs and services increased during fiscal year 2008. The District's expenses cover a range of services, with over one half encompassing instruction, and one third for support services. (See Figure A-4)



NEWELL SCHOOL DISTRICT NO. 9-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)

Changes in Net Assets (Continued)

Table A-2 and the narrative that follows consider the operations of the District.

Table A-2

	Total Governmental Activities		Total Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
<b>Revenues</b>						
<i>Program Revenues</i>						
Charges for Services	\$ 34,778	\$ 34,700	\$ 62,720	\$ 59,165	\$ 97,498	\$ 93,865
Operating Grants and Contributions	683,408	782,125	77,288	84,252	760,696	866,377
<i>General Revenues</i>						
Property Taxes	1,279,872	1,259,670	-	-	1,279,872	1,259,670
Gross Receipts Taxes	81,329	86,170	-	-	81,329	86,170
Revenue State Sources	1,236,885	1,365,314	-	-	1,236,885	1,365,314
Revenue Federal Sources	101,284	108,755	-	-	101,284	108,755
Unrestricted Investment Earnings	4,893	10,796	-	-	4,893	10,796
Other General Revenues	66,548	69,942	-	-	66,548	69,942
<i>Special Items</i>	-	37,029	-	-	-	37,029
<b>Total Revenues</b>	<b>3,488,997</b>	<b>3,754,501</b>	<b>140,008</b>	<b>143,417</b>	<b>3,629,005</b>	<b>3,897,918</b>
<b>Expenses</b>						
Instruction	1,818,477	1,932,011	-	-	1,818,477	1,932,011
Support Services	1,221,047	1,142,035	-	-	1,221,047	1,142,035
Community Services	99,235	100,720	-	-	99,235	100,720
Non-programmed Charges	-	28,373	-	-	-	28,373
Co-Curricular Activities	150,123	161,346	-	-	150,123	161,346
Interest on Long-Term Debt	80,673	112,631	-	-	80,673	112,631
Food Service	-	-	141,630	144,490	141,630	144,490
<b>Total Expenses</b>	<b>3,369,555</b>	<b>3,477,116</b>	<b>141,630</b>	<b>144,490</b>	<b>3,511,185</b>	<b>3,621,606</b>
<b>Excess Revenues Before Transfers</b>	<b>119,442</b>	<b>277,385</b>	<b>(1,622)</b>	<b>(1,073)</b>	<b>117,820</b>	<b>276,312</b>
<b>Transfers</b>	<b>-</b>	<b>(16,380)</b>	<b>-</b>	<b>16,380</b>	<b>-</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>119,442</b>	<b>261,005</b>	<b>(1,622)</b>	<b>15,307</b>	<b>117,820</b>	<b>276,312</b>
<b>Ending Net Assets</b>	<b>\$ 3,720,057</b>	<b>\$ 3,981,062</b>	<b>\$ (5,918)</b>	<b>\$ 9,389</b>	<b>\$ 3,714,139</b>	<b>\$ 3,990,451</b>

Governmental Activities

The District experienced normal individual revenue fluctuations during the 2008 year as compared to the 2007 year. The increase in expenditures was due to payroll and related expenses.

Business-Type Activities

Revenues of the District's business-type activities increased by approximately 2.4 percent, and expenses increased by approximately 2.0 percent.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2008**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The Pension Tax fund balance decreased slightly due to teacher retirement payments for the year ended June 30, 2008. The General Fund's fund balance decreased by \$40,088, primarily due to payroll and related expenses. The Special Education Fund's fund balance increased by \$37,980, primarily due to receiving extraordinary cost funds. The Capital Outlay Fund had a decrease to fund balance of \$80,898 due to capital expenditures for the new school addition exceeding debt proceeds. The School Addition Fund experienced a \$949,900 decrease to fund balance due to the completion of the school addition project.

**BUDGETARY HIGHLIGHTS**

There were no significant budget changes.

Net variances between budget and actual were due to timing of construction projects, changes in grant funding, extraordinary cost revenues, and payroll increases.

**CAPITAL ASSET ADMINISTRATION**

By the end of 2008, the District had invested approximately \$5.7 million in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-3.) Governmental capital asset additions and deletions are not consistently tracked by the District.

Table A-3

	<b>Capital Assets (Net of Depreciation)</b>			
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	2007	2008	2007	2008
Land	\$ 24,544	\$ 24,544	\$ -	\$ -
Buildings	3,293,963	4,555,073	-	-
Improvements Other Than Buildings	191,242	191,242	3,385	2,489
Equipment	994,721	994,721	-	-
Construction in Progress	196,409	-	-	-
<b>Total Capital Assets (Net)</b>	<b>\$ 4,700,879</b>	<b>\$ 5,765,580</b>	<b>\$ 3,385</b>	<b>\$ 2,489</b>

**NEWELL SCHOOL DISTRICT NO. 9-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**  
**JUNE 30, 2008**

**LONG-TERM DEBT**

At year-end, the District had \$2,397,382 in long-term obligations. This is a decrease of 9 percent as shown on Table A-4 below.

Table A-4

<b>Outstanding Debt and Obligations</b>				
	<u>2007</u>	<u>2008</u>	<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
Compensated Absences	\$ 123,027	\$ 133,127	\$ 10,100	8%
Early Retirement	9,188	9,458	270	3%
Financing (Capital Acquisition) Leases	142,184	44,797	(97,387)	-68%
Capital Outlay Certificates	2,350,000	2,210,000	(140,000)	-6%
<b>Total Outstanding Debt and Obligations</b>	<b>\$ 2,624,399</b>	<b>\$ 2,397,382</b>	<b>\$ (227,017)</b>	<b>-9%</b>

Compensated absences consist of sick leave to those that meet the eligibility requirements.

The District also maintains an early retirement plan, which allows those meeting certain qualifications to retire early. The retirees receive 4 percent of their most recent salary times the number of years of employment with the District, up to a maximum of 75 percent of their salary. The retirement is paid in equal installments over an 18 month period.

The District also maintains several capital leases to finance the purchase of school buses.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's current economic position has shown change. The District experienced a increase in total property valuation from \$138,338,265 to \$143,489,272. The increase in property valuation increases the District's ability to generate revenue from property taxes; however, the total amount, which can be levied, is limited by the State of South Dakota.

One of the primary sources of revenue to the District is based on a per student allocation from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,529 per pupil. The District has experienced a decrease of 14 ADM from 2007 to 2008. This decrease in ADM will result in the District receiving less overall revenue from the State of South Dakota.

The District's enrollment decreased from 336 to 326 (K-12) between fiscal year 2007 and 2008.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Newell School District's Business Office, 501 Dartmouth Avenue, Newell, SD 57760.

NEWELL SCHOOL DISTRICT NO. 9-2

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
<b><u>ASSETS</u></b>			
Cash and Investments	\$ 496,743	\$ -	\$ 496,743
Taxes Receivable	643,380	-	643,380
Receivables (Note 3)	197,600	2,969	200,569
Inventories	-	5,977	5,977
Prepaid Expenses	57,137	-	57,137
Capital Assets (Note 5):			
Land	24,544	-	24,544
Buildings	4,555,073	-	4,555,073
Improvements Other Than Buildings	191,242	-	191,242
Equipment	994,721	-	994,721
Equipment, Net of Depreciation	-	2,489	2,489
<b>TOTAL ASSETS</b>	<b>\$ 7,160,440</b>	<b>\$ 11,435</b>	<b>\$ 7,171,875</b>
<b><u>LIABILITIES</u></b>			
Current Liabilities	\$ 201,196	\$ 2,046	\$ 203,242
Deferred Revenue	580,800	-	580,800
Long-Term Liabilities (Note 6):			
Due Within One Year	307,613	-	307,613
Due in More than One Year	2,089,769	-	2,089,769
<b>TOTAL LIABILITIES</b>	<b>3,179,378</b>	<b>2,046</b>	<b>3,181,424</b>
<b><u>NET ASSETS</u></b>			
Invested in Capital Assets, Net of Related Debt	3,510,783	2,489	3,513,272
Restricted for:			
Capital Outlay	87,147	-	87,147
Pension Tax	108,786	-	108,786
Food Service	-	6,900	6,900
Unrestricted	274,346	-	274,346
<b>TOTAL NET ASSETS</b>	<b>3,981,062</b>	<b>9,389</b>	<b>3,990,451</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 7,160,440</b>	<b>\$ 11,435</b>	<b>\$ 7,171,875</b>

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business- Type Activities	Total
<i>Governmental Activities:</i>						
Instruction	\$ 1,932,011	\$ -	\$ 782,125	\$ (1,149,886)	\$ -	\$ (1,149,886)
Support Services	1,142,035	-	-	(1,142,035)	-	(1,142,035)
Community Services	100,720	-	-	(100,720)	-	(100,720)
Co-Curricular Activities	161,346	34,700	-	(126,646)	-	(126,646)
Non-Programmed Charges	28,373	-	-	(28,373)	-	(28,373)
Interest on Long-Term Debt *	112,631	-	-	(112,631)	-	(112,631)
Total Governmental Activities	3,477,116	34,700	782,125	(2,660,291)	-	(2,660,291)
<i>Business-Type Activities:</i>						
Food Service	144,490	59,165	84,252	-	(1,073)	(1,073)
Total Primary Government	\$ 3,621,606	\$ 93,865	\$ 866,377	(2,660,291)	(1,073)	(2,661,364)
<i>General Revenues</i>						
Taxes:						
Property Taxes				1,259,670	-	1,259,670
Gross Receipts Taxes				86,170	-	86,170
Revenue from State Sources:						
State Aid				1,357,300	-	1,357,300
Other				8,014	-	8,014
Revenue from Federal Sources				108,755	-	108,755
Unrestricted Investment Earnings				10,796	-	10,796
Other General Revenues				69,942	-	69,942
Transfers				(16,380)	16,380	-
Special Item - Class Action Settlement				37,029	-	37,029
Total General Revenues and Special Item				2,921,296	16,380	2,937,676
Change in Net Assets				261,005	15,307	276,312
Net Assets -- Beginning				3,720,057	(5,918)	3,714,139
Net Assets -- Ending				\$ 3,981,062	\$ 9,389	\$ 3,990,451

\* The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The accompanying notes are an integral part of this statement.



NEWELL SCHOOL DISTRICT NO. 9-2

GOVERNMENTAL FUNDS BALANCE SHEET  
JUNE 30, 2008

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and Investments	\$ 263,203	\$ 40,578	\$ 76,653	\$ 116,309	\$ 496,743
Taxes Receivable -- Current	263,525	208,723	97,404	20,872	590,524
Taxes Receivable -- Delinquent	27,493	16,189	7,554	1,620	52,856
Due from Other Funds (Note 8)	69,020	-	-	-	69,020
Due from State Government (Note 3)	197,600	-	-	-	197,600
Prepaid Expenses	19,357	37,780	-	-	57,137
<b>Total Assets</b>	<b>\$ 840,198</b>	<b>\$ 303,270</b>	<b>\$ 181,611</b>	<b>\$ 138,801</b>	<b>\$ 1,463,880</b>
<b>LIABILITIES</b>					
Accounts Payable and Accrued Expenses	\$ 156,940	\$ 10,544	\$ 33,712	\$ -	\$ 201,196
Due to Other Funds (Note 8)	-	-	69,020	-	69,020
Deferred Revenue	286,220	221,768	103,491	22,177	633,656
<b>Total Liabilities</b>	<b>443,160</b>	<b>232,312</b>	<b>206,223</b>	<b>22,177</b>	<b>903,872</b>
<b>FUND EQUITY</b>					
<i>Fund Balance -- Reserved:</i>					
Prepaid Expense	19,357	37,780	-	-	57,137
Music, Athletics, and Library	3,641	-	-	-	3,641
<i>Fund Balance -- Unreserved:</i>					
Undesignated (Deficit)	374,040	33,178	(24,612)	116,624	499,230
<b>Total Fund Equity</b>	<b>397,038</b>	<b>70,958</b>	<b>(24,612)</b>	<b>116,624</b>	<b>560,008</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 840,198</b>	<b>\$ 303,270</b>	<b>\$ 181,611</b>	<b>\$ 138,801</b>	<b>\$ 1,463,880</b>

The accompanying notes are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO GOVERNMENT-WIDE  
STATEMENT OF NET ASSETS  
JUNE 30, 2008**

Total Fund Balances - Governmental Funds	\$ 560,008
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	5,765,580
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Long-term liabilities, including capital outlay certificates payable, accrued leave payable, financing leases and early retirement payable, are not due in the current period and therefore are not reported in the funds.	(2,397,382)
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Assets, such as taxes receivable, that are not available to pay for current period expenditures are deferred in the funds.	52,856
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<b>Net Assets - Governmental Funds</b>	<b>\$ 3,981,062</b>
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The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	School Addition Fund	Total Governmental Funds
<b>Revenues:</b>						
<i>1000 Revenue from Local Sources:</i>						
1110 Ad Valorem Taxes	\$ 554,965	\$ 420,980	\$ 197,082	\$ 41,786	\$ -	\$ 1,214,813
1120 Prior Years' Ad Valorem Taxes	8,891	3,938	1,838	394	-	15,061
1140 Gross Receipts Taxes	86,170	-	-	-	-	86,170
1190 Penalties and Interest on Taxes	3,060	1,737	811	173	-	5,781
1500 Earnings on Investments and Deposits	298	-	-	-	10,498	10,796
<i>1700 Cocurricular Activities:</i>						
1710 Admissions	13,133	-	-	-	-	13,133
1720 Concessions	21,107	-	-	-	-	21,107
1790 Other Pupil Activity	460	-	-	-	-	460
<i>1900 Other Revenue from Local Sources:</i>						
1910 Rentals	300	-	-	-	-	300
1990 Other	21,985	25,310	384	-	-	47,679
2110 County Apportionment	21,963	-	-	-	-	21,963
<i>3000 Revenue from State Sources:</i>						
3110 Unrestricted Grants-in-Aid	1,357,300	-	-	-	-	1,357,300
3120 Restricted Grants-in-Aid	-	-	237,727	-	-	237,727
3900 Other State Revenue	8,014	-	-	-	-	8,014
<i>4000 Revenue from Federal Sources:</i>						
4120 Unrestricted Grants-in-Aid Received from Federal Government Through State	108,755	-	-	-	-	108,755
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	449,555	-	94,843	-	-	544,398
<b>Total Revenues</b>	<b>2,655,956</b>	<b>451,965</b>	<b>532,685</b>	<b>42,353</b>	<b>10,498</b>	<b>3,693,457</b>
<b>Expenditures:</b>						
<i>1100 Instruction - Regular Programs:</i>						
1110 Elementary	519,936	-	-	-	-	519,936
1120 Middle/Junior High	207,696	-	-	-	-	207,696
1130 High School	448,309	15,209	-	19,692	-	483,210
<i>1200 Instruction - Special Programs:</i>						
1220 Programs for Special Education	-	-	452,778	-	-	452,778
1270 Educationally Deprived	258,291	-	-	-	-	258,291
<i>2100 Support Services - Pupils:</i>						
2110 Attendance and Social Work	7,491	-	-	-	-	7,491
2120 Guidance	38,620	-	11,272	-	-	49,892
2130 Health	27,474	-	5,443	-	-	32,917
<i>2200 Support Services - Instructional Staff:</i>						
2220 Educational Media	156,213	-	-	-	-	156,213
<i>2300 Support Services - General:</i>						
2310 Board of Education	94,158	-	-	-	-	94,158
2320 Executive Administration	119,896	-	-	-	-	119,896
<i>2400 Support Services - School:</i>						
2410 Office of the Principal	74,671	-	-	-	-	74,671
<i>2500 Support Services - Business:</i>						
2520 Fiscal Services	86,623	-	-	-	-	86,623
2530 Facilities Acquisition and Construction	-	47,645	-	-	-	47,645
2540 Operation and Maintenance of Plant	275,478	5,000	-	-	-	280,478
2550 Pupil Transportation	158,705	1,554	-	-	-	160,259
2570 Internal Services	-	6,580	-	-	-	6,580

NEWELL SCHOOL DISTRICT NO. 9-2

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Tax Fund	School Addition Fund	Total Governmental Funds
<i>2700 Support Services - Special Education:</i>						
2730 Transportation Costs	-	-	22,429	-	-	22,429
2750 Other Special Education Costs	-	-	2,783	-	-	2,783
<i>3000 Community Services:</i>						
3500 Custody and Care of Children	100,720	-	-	-	-	100,720
4500 Early Retirement	-	-	-	28,103	-	28,103
5000 Debt Service	9,899	340,119	-	-	-	350,018
<i>6000 Cocurricular Activities:</i>						
6900 Combined Activities	148,893	12,453	-	-	-	161,346
7500 Capital Outlay	-	-	-	-	1,064,701	1,064,701
<b>Total Expenditures</b>	<b>2,733,073</b>	<b>428,560</b>	<b>494,705</b>	<b>47,795</b>	<b>1,064,701</b>	<b>4,768,834</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(77,117)</b>	<b>23,405</b>	<b>37,980</b>	<b>(5,442)</b>	<b>(1,054,203)</b>	<b>(1,075,377)</b>
<b>Other Financing Sources (Uses)</b>						
5110 Transfer In	-	-	-	-	104,303	104,303
8110 Transfer Out	(16,380)	(104,303)	-	-	-	(120,683)
<b>Total Other Financing Sources (Uses)</b>	<b>(16,380)</b>	<b>(104,303)</b>	<b>-</b>	<b>-</b>	<b>104,303</b>	<b>(16,380)</b>
5150 Special Item - Class Action Settlement	37,029	-	-	-	-	37,029
<b>Net Change in Fund Balances</b>	<b>(56,468)</b>	<b>(80,898)</b>	<b>37,980</b>	<b>(5,442)</b>	<b>(949,900)</b>	<b>(1,054,728)</b>
<b>Fund Balances -- Beginning</b>	<b>453,506</b>	<b>151,856</b>	<b>(62,592)</b>	<b>122,066</b>	<b>949,900</b>	<b>1,614,736</b>
<b>Fund Balances -- Ending</b>	<b>\$ 397,038</b>	<b>\$ 70,958</b>	<b>\$ (24,612)</b>	<b>\$ 116,624</b>	<b>\$ -</b>	<b>\$ 560,008</b>

The accompanying notes are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR YEAR ENDED JUNE 30, 2008**

Net Change in Fund Balances - Total Governmental Funds \$ (1,054,728)

Amounts reported for governmental activities in the Statement of Activities are different  
because:

This amount represents capital asset purchases, which are reported as expenditures  
on the fund financial statements, but increase assets on the Government-Wide statements. 1,064,701

In both the Government-Wide and governmental fund financial statements, revenues from  
property tax levies are applied to finance the budget of a particular period. Accounting for  
revenues from property tax accruals in the governmental fund financial statements differs  
from the accounting in the Government-Wide statements in that the governmental fund  
financial statements require the amount to be available. This amount reflects the application  
of both the application period and availability criteria. 24,015

Governmental funds recognize expenditures for amounts of compensated absences and  
early retirement benefits actually paid to employees with current financial resources during  
the fiscal year. Amounts of compensated absences and early retirement benefits earned  
by employees are not recognized in the governmental funds. In the Statement of Activities,  
expenses for these benefits are recognized when the employees earn leave credits or elect  
to retire early. (10,370)

Payment of principal on long-term debt is an expenditure in the governmental funds,  
but the payment reduces long-term liabilities in the Statement of Net Assets. 237,387

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Change in Net Assets of Governmental Activities	\$ 261,005
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The accompanying notes are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**PROPRIETARY FUNDS BALANCE SHEET  
JUNE 30, 2008**

	<b>Food Service Fund</b>
<b>ASSETS</b>	
Current Assets:	
Accounts Receivable	\$ 453
Due From Other Government	2,516
Inventory of Supplies	662
Inventory of Stores Purchased for Resale	1,118
Inventory of Donated Food	4,197
<b>Total Current Assets</b>	<b>8,946</b>
Noncurrent Assets:	
Capital Assets (Note 5):	
Machinery and Equipment	37,866
Less Accumulated Depreciation	(35,377)
<b>Total Noncurrent Assets</b>	<b>2,489</b>
<b>TOTAL ASSETS</b>	<b>\$ 11,435</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Accrued Leave Payable	\$ 2,046
<b>NET ASSETS</b>	
Invested in Capital Assets	2,489
Unrestricted	6,900
<b>Total Net Assets</b>	<b>9,389</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 11,435</b>

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008

	<b>Food Service Fund</b>
<b>Operating Revenue</b>	
<i>Sales:</i>	
To Pupils	\$ 50,241
To Adults	4,914
A La Carte	127
Miscellaneous	3,883
<b>Total Operating Revenue</b>	<b>59,165</b>
<b>Operating Expenses</b>	
Salaries	45,720
Employee Benefits	19,565
Purchased Services	4,743
Supplies	4,673
Cost of Sales - Purchased Food	63,168
Cost of Sales - Donated Food	5,725
Depreciation - Local Funds	896
<b>Total Operating Expenses</b>	<b>144,490</b>
<b>Operating Loss</b>	<b>(85,325)</b>
<b>Nonoperating Revenue</b>	
<i>Federal Sources:</i>	
Cash Reimbursements	76,645
Donated Food	7,607
<b>Total Nonoperating Revenue</b>	<b>84,252</b>
<b>Loss Before Transfers</b>	<b>(1,073)</b>
Transfer In	16,380
<b>Change in Net Assets</b>	<b>15,307</b>
Net Assets (Deficit) -- Beginning	(5,918)
<b>Net Assets -- Ending</b>	<b>\$ 9,389</b>

The accompanying notes are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Food Service Fund</u>
<b>Cash Flows From Operating Activities</b>	
Receipts from Customers	\$ 59,165
Payments to Suppliers	(72,592)
Payments to Employees	(65,285)
<b>Net Cash Used in Operating Activities</b>	<b>(78,712)</b>
 <b>Cash Flows From Noncapital Financing Activities</b>	
Operating Subsidies	74,129
Transfers In	4,583
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>78,712</b>
 <b>Net Change in Cash</b>	<b>-</b>
 <b>Cash -- Beginning</b>	<b>-</b>
 <b>Cash -- Ending</b>	<b>\$ -</b>
 <b>Reconciliation of Operating Loss to Net Cash Flows</b>	
<b>Used in Operating Activities</b>	
Operating Loss	\$ (85,325)
<i>Adjustments to Reconcile Operating Loss to Net Cash</i>	
<i>Used in Operating Activities:</i>	
Cost of Sales - Donated Food	5,725
Depreciation Expense	896
Change in Inventories	(8)
<b>Net Cash Used in Operating Activities</b>	<b>\$ (78,712)</b>
 <b>Noncash Investing, Capital and Financing Activities</b>	
Value of Commodities Received	\$ 7,607

The accompanying notes are an integral part of this statement.



NEWELL SCHOOL DISTRICT NO. 9-2

STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2008

	Private-Purpose Trust Fund	Agency Funds
<b><u>ASSETS</u></b>		
Cash and Investments	\$ 10,286	\$ 41,123
<b><u>LIABILITIES</u></b>		
Amounts Held for Others	-	\$ 41,123
<b><u>NET ASSETS</u></b>		
Reserved for Scholarships	\$ 10,286	

The accompanying notes are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Private- Purpose Trust Fund</u>
<b>ADDITIONS</b>	
Interest Earnings	\$ 95
<b>REDUCTIONS</b>	
Scholarships	5,042
<b>Change in Net Assets</b>	<b>(4,947)</b>
Net Assets -- Beginning	15,233
<b>Net Assets -- Ending</b>	<b>\$ 10,286</b>

The accompanying notes are an integral part of this statement.

## NEWELL SCHOOL DISTRICT NO. 9-2

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

#### (1) Summary of Significant Accounting Policies

##### a. Reporting Entity

The reporting entity of Newell School No. 9-2 (the District) consists of the primary governments (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The funds included in this report are controlled by or dependent upon the District's Board of Education. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments.

##### b. Basis of Presentation

###### *Government-Wide Statements:*

The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The Statement of Net Assets reports all financial and capital resources, in a balance sheet form (assets equal liabilities plus net assets). Net assets are displayed in three components, as applicable: invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

###### *Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, propriety, and fiduciary. An emphasis is placed on major funds within the governmental and propriety categories. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**b. Basis of Presentation (Continued)**

*Fund Financial Statements (Continued):*

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund – The General fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes. The Special Education, Pension Tax, and Capital Outlay Funds are the special revenue funds maintained by the District.

Capital Projects Fund – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The School Addition Fund is the only capital projects fund maintained by the District.

Proprietary Funds:

Enterprise Funds – Enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Food Service Fund is the only enterprise fund maintained by the District.

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

Private-Purpose Trust Funds – Private-purpose trust funds are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The District maintains one private-purpose trust fund, which is a scholarship fund that was established by a donation made to the District for payment of scholarships to District students.

Agency Funds - Agency funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The District maintains a variety of agency funds. Agency funds are established to account for the monies earned by student organizations for various expenditures.

Following is a list of major funds:

<u>Fund</u>	<u>Brief Description</u>
General Fund	A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the District, excluding capital outlay fund and special education fund expenditures.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**b. Basis of Presentation (Concluded)**

*Fund Financial Statements (Concluded):*

Following is a list of major funds (Continued):

*Special Revenue Funds:*

Capital Outlay Fund	A fund established by SDCL 13-16-6 to meet expenditures which result in the acquisition of or additions to real property, plant or equipment, textbooks, and instructional software. This fund is financed by property taxes.
Special Education Fund	A fund established by SDCL 13-37-16 to account for the costs associated with the special education of children in need of special and prolonged assistance who reside within the District. This fund is financed by grants and property taxes.
Pension Tax Fund	A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems; paying the District's share of retirement plan contributions; and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes.

*Capital Projects Fund:*

School Addition Fund	A fund established to record the financial transactions related to the school addition project. This fund is financed by capital outlay certificates.
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*Enterprise Fund:*

Food Service Fund	A fund established to record the financial transactions related to the K-12 food services operation. This fund is financed by user charges and grants.
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**c. Measurement Focus and Basis of Accounting**

Measurement focus is a term to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

**Measurement Focus:**

*Government-Wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2008

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

*Fund Financial Statements:*

In the fund financial statements, the current financial resources measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the economic resources measurements focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

*Government-Wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned, and expenses and related liabilities are recorded when an obligation is incurred.

*Fund Financial Statements:*

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the District, the length of that cycle is 60 days.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All proprietary and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Enterprise funds do not apply FASB Statements and Interpretations issued after November 30, 1989, if they conflict with GASB pronouncements.

d. Interfund Eliminations and Reclassifications

*Government-Wide Financial Statements:*

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances.

*Fund Financial Statements:*

Noncurrent portions of long-term interfund receivables (reported in Advances to asset accounts) are equally offset by a fund balance reserve account, which indicates that they do not constitute available spendable resources since they are not a component of net current assets. Current portions of interfund loans receivable (reported in Due From asset accounts) are considered available, spendable resources.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**e. Capital Assets**

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-Wide Statements:*

All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) for land, buildings, improvements, and equipment are all set at \$1,000.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide business-type activities, with net capital assets reflected in the Statement of Net Assets. The depreciation method used for equipment is straight-line.

The District does not have subsidiary records to support its governmental capital assets balance. In addition, capital asset additions and deletions have not been consistently or accurately recorded since 1994. No accumulated depreciation or depreciation expense is recorded in the government-wide statements for governmental activities.

*Fund Financial Statements:*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition. Capital assets used in the proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

The estimated useful lives of equipment reported in the proprietary funds are 5 to 15 years.

**f. Long-Term Liabilities**

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of compensated absences payable, early retirement payable, capital outlay certificates, and financing (capital acquisition) leases.

Compensated absences consist of sick leave earned. Sick leave is earned by certified and classified employees at the rate of 15 days per year and 1.25 days per month of employment, respectively. The number of days accumulated is limited to a maximum of 70 days for certified employees and 40 days for classified employees. Upon termination, some employees are entitled to receive compensation for their accrued sick leave balance. Those with three years of service or more will receive compensation at the rate of \$60 and \$20 per day of accumulated leave for certified and classified employees, respectively.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**f. Long-Term Liabilities (Continued)**

Full-time teachers and administrators may participate in an early retirement program. Upon meeting certain criteria, cash benefits equal to four percent of the employee's salary per year of employment up to a maximum of 75 percent of their current salary may be paid to eligible employees upon termination. The benefit is paid in 18 equal monthly installments. A long-term liability is recognized for the total benefits calculated to be payable in future periods for 1 employee that has applied for separation.

Funding for compensated absences is expended in the general and special revenue funds. Early retirement is expended in the pension tax fund.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis in the fund financial statements and in the government-wide statements.

**g. Program Revenues**

In the government-wide Statement of Activities, reported program revenues are derived directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into two categories, as follows:

1. Charges for services -- These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions -- These arise from mandatory and voluntary non-exchange transactions with other governments, organization, or individuals that are restricted for use in a particular program.

**h. Proprietary Funds Revenue and Expense Classifications**

In the proprietary fund Statement of Revenues, Expenses, and Changes in Fund Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as non-capital financing activities are not reported as components of operating revenues or expenses.

**i. Inventory**

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

Inventory in the enterprise fund consists of food and supplies held for consumption. Inventory is recorded at the time individual inventory items are purchased and expensed when used.

There are no significant amounts of governmental supplies inventory maintained by the District.

**j. Deposits and Investments**

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:



**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**j. Deposits and Investments (Continued)**

Deposits – The District’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts that exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating, which may not be less than “AA” or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2008, the District’s cash and investments consisted of checking accounts and certificates of deposit.

*Interest Rate Risk:*

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk:*

State law limits eligible investments as discussed above. The District has no investment policy that would further limit its investment choices.

*Custodial Credit Risk:*

The risk that, in the event of a depository failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2008, none of the District’s deposits were exposed to custodial credit risk.

State law allows income from deposits to be credited to either the General Fund or the fund making the investment. The District’s policy is to credit all income from deposits to the fund making the investment.

**k. Deferred Revenue**

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met, primarily property tax revenue (Note 2).

**l. Cash and Cash Equivalents**

For the purpose of the Statement of Cash Flows, the District considers all highly liquid deposits and investments (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents.

**m. Application of Net Assets**

It is the District’s policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Concluded)**

**n. Equity Classifications**

Equity is classified as net assets in the government-wide statements and is displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups, such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

**(2) Property Taxes**

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the District's taxes and remits them to the District.

District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Current year property taxes receivable, which are not available as a resource that can be used to finance the current year's appropriations and therefore are not susceptible to accrual, have been deferred and are not reported as revenue in the fund financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the fiscal period or within the "availability period."

**(3) Due from State Government**

Amounts due from state governments include grant reimbursements due from the State of South Dakota.

**(4) Retirement Plan – South Dakota Retirement System**

The following summary description of participation in the South Dakota Retirement System (the System) is provided for general information purposes. Participants should refer to South Dakota Codified Law (SDCL) 3-12 and employee handbooks for more complete information.

All full-time and permanent part-time employees participate in the System, a cost sharing, multiple employer, public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The System provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

Covered employees (Class A Members) are required by state statute to contribute six percent of their salary to the System. State statute also requires the employer to contribute an amount equal to the employee's contribution and to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the System for the fiscal years ended June 30, 2008, 2007, 2006, and 2005 were \$113,469, \$108,699, \$102,827, and \$98,639, respectively, equal to the required contributions each year.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2008

(5) Changes in Capital Assets

Changes in capital assets used in governmental activities were as follows (see Note 1):

	Balance July 1, 2007	Additions	Transfers/ Retirements	Balance June 30, 2008
<b>Governmental Activities</b>				
Land	\$ 24,544	\$ -	\$ -	\$ 24,544
Buildings	3,293,963	1,064,701	196,409	4,555,073
Improvements Other Than Building	191,242	-	-	191,242
Equipment -- Local Funds	994,721	-	-	994,721
Construction in Progress	196,409	-	(196,409)	-
<b>Governmental Activities Capital Assets</b>	<b>\$ 4,700,879</b>	<b>\$ 1,064,701</b>	<b>\$ -</b>	<b>\$ 5,765,580</b>

Changes in capital assets used in business-type activities were as follows:

	Balance July 1, 2007	Additions	Transfers/ Retirements	Balance June 30, 2008
<b>Business-Type Activities</b>				
Machinery and Equipment	\$ 37,866	\$ -	\$ -	\$ 37,866
Less Accumulated Depreciation	(34,481)	(896)	-	(35,377)
<b>Business -Type Activities Capital Assets, Net</b>	<b>\$ 3,385</b>	<b>\$ (896)</b>	<b>\$ -</b>	<b>\$ 2,489</b>

(6) Long-Term Debt

The following is a summary of the changes in long-term liabilities:

	Capital Outlay Certificates	Financing (Capital Acquisition) Leases	Early Retirement Payable	Compensated Absences Payable	Total
<b>Governmental Activities</b>					
Balance -- Beginning	\$ 2,350,000	\$ 142,184	\$ 9,188	\$ 123,027	\$ 2,624,399
Earned	-	-	-	22,000	22,000
Used	-	-	-	(11,900)	(11,900)
New Retirees	-	-	28,373	-	28,373
Retirement Payments	-	-	(28,103)	-	(28,103)
Retired Amounts	(140,000)	(97,387)	-	-	(237,387)
Balance -- Ending	2,210,000	44,797	9,458	133,127	2,397,382
<b>Due Within One Year</b>	<b>\$ 145,000</b>	<b>\$ 20,028</b>	<b>\$ 9,458</b>	<b>\$ 133,127</b>	<b>\$ 307,613</b>

The District maintains a \$200,000 bank line of credit bearing interest at 5.0 percent. There were no borrowings on the line of credit during the year ended or as of June 30, 2008.

NEWELL SCHOOL DISTRICT NO. 9-2

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2008

(6) Long-Term Debt (Continued)

The compensated absences and early retirement payable will be paid from the general fund and the pension fund. Long-term debt other than compensated absences and early retirement payable are comprised of the following at June 30, 2008:

*Capital Outlay Certificates:*

2007 Capital Outlay Certificates require variable annual payments, including fixed interest at 3.9 to 4.5 percent, from June 2007 through June 2027; paid from the Capital Outlay Fund. \$ 1,125,000

2005 Refunding Capital Outlay Certificates require variable annual payments, including fixed interest at 2.0 to 4.4 percent, from January 2005 through January 2017; paid from the Capital Outlay Fund. 1,085,000

*Financing (Capital Acquisition) Leases:*

Lease which requires annual payments of \$13,482, including interest at 6.59 percent, through July 2010; paid from the Capital Outlay Fund. 36,136

Lease which requires annual payments of \$8,751, including interest at 4.0 percent, through July 2008; paid from the Capital Outlay Fund. 8,661

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**\$ 2,254,797**

The purchase price at the commencement of the financing (capital acquisition) leases was:

Principal	\$ 107,041
Interest	<u>12,873</u>
Total	<u>\$ 119,914</u>

The annual requirements to amortize all debt outstanding as of June 30, 2008, excluding compensated absences, are as follows:

Year Ending June 30,	Capital Outlay Certificates		Financing (Capital Acquisition) Leases		Early Retirement	Totals
	Principal	Interest	Principal	Interest		
2009	145,000	89,808	20,028	2,472	9,458	266,766
2010	145,000	85,098	12,032	1,450	-	243,580
2011	155,000	80,126	12,737	745	-	248,608
2012	160,000	74,521	-	-	-	234,521
2013	165,000	68,453	-	-	-	233,453
2014-2018	800,000	233,478	-	-	-	1,033,478
2019-2023	325,000	114,000	-	-	-	439,000
2024-2027	315,000	36,112	-	-	-	351,112
	<b>\$ 2,210,000</b>	<b>\$ 781,596</b>	<b>\$ 44,797</b>	<b>\$ 4,667</b>	<b>\$ 9,458</b>	<b>\$ 3,050,518</b>

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)**  
**JUNE 30, 2008**

**(7) Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the District managed its risks as follows:

*Property/Liability Insurance*

The District purchases liability insurance for risk related to torts, theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier.

*Workmen's Compensation*

The District purchases liability insurance for worker's compensation from a commercial carrier.

*Health Insurance*

The District joined the South Dakota School District Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. During the year ended June 30, 2008, the coverage provided a deductible of \$1,000 per person up to \$2,000 per family. The plan also provides for coinsurance of 80 percent up to \$10,000. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

The District does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settlement claims resulting from these risks have never exceeded the liability coverage.

*Unemployment Benefits*

The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

**(8) Individual Fund Balances and Transfers**

Interfund receivable and payable balances at June 30, 2008, are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<i>Major Funds:</i>		
General Fund	\$ 69,020	\$ -
Special Education Fund	-	69,020
<b>Total Interfund Receivable and Payable Balances</b>	<b>\$ 69,020</b>	<b>\$ 69,020</b>

The General Fund loaned monies to the Special Education Fund and Food Service Fund for operations. All interfund balances are current.

The Capital Outlay fund transferred \$104,303 to the School Addition Fund to cover the costs of the construction project.

**(9) Contingency**

The District participates in a number of federal programs that are subject to compliance audits under OMB Circular A-133. From the 2004/2005, 2006, and 2007 compliance audits, there are questioned costs to the U.S. Department of Education of \$8,722, \$6,484, and \$5,403 respectively. From the 2008 compliance audit, there are questioned costs to the U.S. Department of Education of \$3,677. The ultimate resolution of any liability for these questioned costs will be made by the federal agency.

## REQUIRED SUPPLEMENTARY INFORMATION

NEWELL SCHOOL DISTRICT NO. 9-2

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		(Budgetary Basis)	
	Original	Final	Actual	Variance
Revenues:				
1000 Revenue from Local Sources:				
1110 Ad Valorem Taxes	\$ 544,597	\$ 544,597	\$ 554,965	\$ 10,368
1120 Prior Years' Ad Valorem Taxes	20,000	20,000	8,891	(11,109)
1140 Gross Receipts Taxes	70,000	70,000	86,170	16,170
1190 Penalties and Interest on Taxes	2,500	2,500	3,060	560
1500 Earnings on Investments and Deposits	200	200	298	98
1700 Cocurricular Activities:				
1710 Admissions	12,500	12,500	13,133	633
1720 Concessions	18,000	18,000	21,107	3,107
1790 Other Pupil Activity	1,000	1,000	460	(540)
1900 Other Revenue from Local Sources:				
1910 Rentals	200	200	300	100
1990 Other	13,750	13,750	21,985	8,235
2110 County Apportionment	18,000	18,000	21,963	3,963
3000 Revenue from State Sources:				
3110 Unrestricted Grants-in-Aid	1,333,510	1,333,510	1,357,300	23,790
3900 Other State Revenue	7,800	7,800	8,014	214
4000 Revenue from Federal Sources:				
4120 Unrestricted Grants-in-Aid Received from Federal Government Through State	40,000	40,000	108,755	68,755
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	425,859	425,859	449,555	23,696
Total Revenues	2,507,916	2,507,916	2,655,956	148,040
Expenditures:				
1100 Instruction - Regular Programs:				
1110 Elementary	439,974	413,173	519,936	(106,763)
1120 Middle/Junior High	202,019	203,355	207,696	(4,341)
1130 High School	439,712	436,226	448,309	(12,083)
1150 Class Size Reducation	64,070	64,070	-	64,070
1200 Instruction - Special Programs:				
1270 Educationally Deprived	247,677	247,677	258,291	(10,614)
1290 Other Special Programs	7,480	7,380	-	7,380
2100 Support Services - Pupils:				
2110 Attendance and Social Work	7,492	7,492	7,491	1
2120 Guidance	38,370	38,698	38,620	78
2130 Health	27,978	28,234	27,474	760
2200 Support Services - Instructional Staff:				
2220 Educational Media	137,829	148,564	156,213	(7,649)

NEWELL SCHOOL DISTRICT NO. 9-2

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		(Budgetary Basis)	Variance
	Original	Final	Actual	
<i>2300 Support Services - General:</i>				
2310 Board of Education	111,026	111,026	94,158	16,868
2320 Executive Administration	118,568	119,534	119,896	(362)
<i>2400 Support Services - School:</i>				
2410 Office of the Principal	74,423	75,020	74,671	349
<i>2500 Support Services - Business:</i>				
2520 Fiscal Services	83,028	85,779	86,623	(844)
2540 Operation and Maintenance of Plant	259,765	260,980	275,478	(14,498)
2550 Pupil Transportation	162,779	163,068	158,705	4,363
<i>3000 Community Services:</i>				
3500 Custody and Care of Children	99,914	99,914	100,720	(806)
5000 Debt Service	-	-	9,899	(9,899)
<i>6000 Cocurricular Activities:</i>				
6900 Combined Activities	136,885	137,911	148,893	(10,982)
<b>Total Expenditures</b>	<b>2,658,989</b>	<b>2,648,101</b>	<b>2,733,073</b>	<b>(84,972)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(151,073)</b>	<b>(140,185)</b>	<b>(77,117)</b>	<b>63,068</b>
<b>Other Financing Sources</b>				
8110 Transfers Out	-	-	(16,380)	(16,380)
5150 Special Items	-	-	37,029	37,029
<b>Change in Fund Balance</b>	<b>(151,073)</b>	<b>(140,185)</b>	<b>(56,468)</b>	<b>83,717</b>
Fund Balance -- Beginning	453,506	453,506	453,506	-
<b>Fund Balance -- Ending</b>	<b>\$ 302,433</b>	<b>\$ 313,321</b>	<b>\$ 397,038</b>	<b>\$ 83,717</b>

The accompanying notes to required supplementary information are an integral part of this statement.



NEWELL SCHOOL DISTRICT NO. 9-2

BUDGETARY COMPARISON SCHEDULE - CAPITAL OUTLAY FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		(Budgetary Basis)	
	Original	Final	Actual	Variance
<b>Revenues:</b>				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 419,704	\$ 419,704	\$ 420,980	\$ 1,276
1120 Prior Years' Ad Valorem Taxes	8,500	8,500	3,938	(4,562)
1190 Penalties and Interest on Taxes	2,000	2,000	1,737	(263)
<i>1900 Other Revenue from Local Sources:</i>				
1990 Other	21,000	21,000	25,310	4,310
<b>Total Revenues</b>	<b>451,204</b>	<b>451,204</b>	<b>451,965</b>	<b>761</b>
<b>Expenditures:</b>				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	2,500	2,500	-	2,500
1120 Middle/Junior High	2,500	2,500	-	2,500
1130 High School	2,500	2,500	15,209	(12,709)
<i>2300 Support Services - General:</i>				
2320 Executive Administration	1,000	1,000	-	1,000
<i>2500 Support Services - Business:</i>				
2530 Facilities Acquisition and Construction	175,000	85,707	47,645	38,062
2540 Operation and Maintenance of Plant	4,000	5,000	5,000	-
2550 Pupil Transportation	5,000	5,000	1,554	3,446
2570 Internal Services	-	6,580	6,580	-
5000 Debt Service	345,582	340,003	340,119	(116)
<i>6000 Cocurricular Activities:</i>				
6900 Combined Activities	6,000	6,000	12,453	(6,453)
<b>Total Expenditures</b>	<b>544,082</b>	<b>456,790</b>	<b>428,560</b>	<b>28,230</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(92,878)</b>	<b>(5,586)</b>	<b>23,405</b>	<b>28,991</b>
<b>Other Financing Uses</b>				
8110 Transfer Out	-	-	(104,303)	(104,303)
<b>Change in Fund Balance</b>	<b>(92,878)</b>	<b>(5,586)</b>	<b>(80,898)</b>	<b>(75,312)</b>
<b>Fund Balance -- Beginning</b>	<b>151,856</b>	<b>151,856</b>	<b>151,856</b>	<b>-</b>
<b>Fund Balance -- Ending</b>	<b>\$ 58,978</b>	<b>\$ 146,270</b>	<b>\$ 70,958</b>	<b>\$ (75,312)</b>

The accompanying notes to required supplementary information are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

BUDGETARY COMPARISON SCHEDULE - SPECIAL EDUCATION FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		(Budgetary Basis)	
	Original	Final	Actual	Variance
<b>Revenues:</b>				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 165,962	\$ 192,800	\$ 197,082	\$ 4,282
1120 Prior Years' Ad Valorem Taxes	2,000	2,000	1,838	(162)
1190 Penalties and Interest on Taxes	1,000	1,000	811	(189)
<i>1900 Other Revenue from Local Sources:</i>				
1990 Other	-	-	384	384
<i>3000 Revenue from State Sources:</i>				
3120 Restricted Grants-in-Aid	139,500	110,000	237,727	127,727
<i>4000 Revenue from Federal Sources:</i>				
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	94,015	93,713	94,843	1,130
<b>Total Revenues</b>	<b>402,477</b>	<b>399,513</b>	<b>532,685</b>	<b>133,172</b>
<b>Expenditures:</b>				
<i>1200 Instruction - Special Services:</i>				
1220 Programs for Special Education	370,270	395,821	452,778	(56,957)
<i>2100 Support Services - Pupils:</i>				
2120 Guidance	11,088	12,225	11,272	953
2130 Health	5,404	5,567	5,443	124
<i>2500 Support Services - Business:</i>				
2550 Pupil Transportation	1,000	-	-	-
<i>2700 Support Services - Special Education:</i>				
2730 Transportation Costs	1,000	2,000	22,429	(20,429)
2750 Other Special Education Costs	65,000	65,000	2,783	62,217
<b>Total Expenditures</b>	<b>453,762</b>	<b>480,613</b>	<b>494,705</b>	<b>(14,092)</b>
<b>Change in Fund Balance</b>	<b>(51,285)</b>	<b>(81,100)</b>	<b>37,980</b>	<b>119,080</b>
Fund Balance -- Beginning	(62,592)	(62,592)	(62,592)	-
<b>Fund Balance -- Ending</b>	<b>\$ (113,877)</b>	<b>\$ (143,692)</b>	<b>\$ (24,612)</b>	<b>\$ 119,080</b>

The accompanying notes to required supplementary information are an integral part of this statement.

NEWELL SCHOOL DISTRICT NO. 9-2

**BUDGETARY COMPARISON SCHEDULE - PENSION TAX FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Budgeted Amounts</b>		<b>(Budgetary Basis)</b>	
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues:</b>				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 43,000	\$ 42,500	\$ 41,786	\$ (714)
1120 Prior Years' Ad Valorem Taxes	-	500	394	(106)
1190 Penalties and Interest on Taxes	-	200	173	(27)
<b>Total Revenues</b>	<b>43,000</b>	<b>43,200</b>	<b>42,353</b>	<b>(847)</b>
<b>Expenditures:</b>				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	3,438	-	-	-
1120 Middle/Junior High	1,918	-	-	-
1130 High School	3,385	19,820	19,692	128
<i>1200 Instruction - Special Programs:</i>				
1220 Programs for Special Education	2,821	-	-	-
<i>2100 Support Services - Pupils:</i>				
2120 Guidance	321	-	-	-
2130 Health	197	-	-	-
<i>2200 Support Services - Instructional Staff:</i>				
2220 Educational Media	769	-	-	-
<i>2300 Support Services - General:</i>				
2320 Executive Administration	959	-	-	-
<i>2400 Support Services - School:</i>				
2410 Office of the Principal	595	-	-	-
<i>2500 Support Services - Business:</i>				
2520 Fiscal Services	545	-	-	-
2540 Operation and Maintenance of Plant	1,192	-	-	-
2550 Pupil Transportation	278	-	-	-
4500 Early Retirement	26,107	28,105	28,103	2
<i>6000 Cocurricular Activities:</i>				
6900 Combined Activities	780	-	-	-
<b>Total Expenditures</b>	<b>43,305</b>	<b>47,925</b>	<b>47,795</b>	<b>130</b>
<b>Change in Fund Balance</b>	<b>(305)</b>	<b>(4,725)</b>	<b>(5,442)</b>	<b>(717)</b>
Fund Balance -- Beginning	122,066	122,066	122,066	-
<b>Fund Balance -- Ending</b>	<b>\$ 121,761</b>	<b>\$ 117,341</b>	<b>\$ 116,624</b>	<b>\$ (717)</b>

The accompanying notes to required supplementary information are an integral part of this statement.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2008**

**(1) Basis of Presentation**

The Budgetary Comparison Schedule has been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedule presents expenditures for capital outlay purposes within each function, while the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances presents capital outlay expenditures as a separate function.

**(2) Budgetary Legal Requirements**

South Dakota Codified Law prescribes the budgetary procedures to be followed by the District as follows:

1. Prior to the first regular board meeting in May of each year, the School Board prepares a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding at the fund level, and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board. The District does not employ encumbrance accounting as an extension of formal budgetary integration.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Generally accepted accounting principles prescribe that budgetary information be presented for the general fund and major special revenue funds of the District only.

## SINGLE AUDIT SECTION

**NEWELL SCHOOL DISTRICT NO. 9-2**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2008**

The recommendations reported in the prior audit of Newell School District No. 9-2 as Finding No. 2007-1, 2007-2, 2007-3, 2007-4, 2007-5, 2007-6, 2007-7, and 2007-8 will be restated on the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan, Part B and Part C. The District is working on implementing corrective actions on certain findings or has accepting the risk associated with other findings.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN  
JUNE 30, 2008**

**A. SUMMARY OF AUDIT RESULTS**

1. The independent auditor's report expresses an adverse opinion on the governmental activities of Newell School District No. 9-2 (the District). The independent auditor's report expresses an unqualified opinion on the business-type activities, major funds, and aggregate remaining fund information of the District.
2. Significant deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. All of these deficiencies are reported as material weaknesses.
3. Instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. Significant deficiencies disclosed during the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. All of these deficiencies are reported as material weaknesses.
5. The auditors' report on compliance for the major federal award programs for the District expresses a qualified opinion.
6. The audit findings related to the major federal award programs for the District are reported in Part C of this schedule.
7. The programs tested as major programs were:
  - a. School-wide Program:
    - (1) Title I Programs – Local Education Agencies, CFDA 84.010
    - (2) Safe and Drug-Free Schools and Communities, CFDA 84.186
    - (3) Innovative Education Program Strategies, CFDA 84.298
    - (4) Technology Literacy Challenge Fund, CFDA 84.318
    - (5) Title II Part A, CFDA 84.367
  - b. 21<sup>st</sup> Century Grant, CFDA 84.287
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The District was not determined to be a low-risk auditee.

**B. FINDINGS -- FINANCIAL STATEMENT AUDIT**

**Significant Deficiencies -- Material Weaknesses in Internal Control**

**2007-1 FINDING: Segregation of Duties**

Condition: An adequate system of accounting duties and functions has not been achieved to assure adequate internal control over safeguarding of assets and the reliability of financial records and reporting. Segregation of duties also encompasses a review function of all phases of the District's financial operations. The following are specific areas of inadequate segregation of duties:

- a. The assistant business manager receives cash and checks, posts the cash/check and electronic payments, prepares the deposit slip, takes the deposit to the bank, receives the bank statement unopened, and is expected to prepare the bank reconciliation, which is not reviewed.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE  
ACTION PLAN (CONTINUED)  
JUNE 30, 2008**

**B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)**

**Significant Deficiencies -- Material Weaknesses in Internal Control (Continued)**

**2007-1 FINDING: Segregation of Duties (Continued)**

- b. The activity tickets are not pre-numbered, and no pre-numbered tickets are used at football games. This makes it impossible for someone to reconcile the revenue from the activity ticket sales or football games, giving personnel/volunteers the opportunity to misappropriate cash.
- c. There is only one ticket taker at the wrestling matches instead of two. This makes it possible for the volunteers to misappropriate cash.
- d. The assistant business manager generates the vendor checks, prepares the disbursement listing for the School Board meetings, has access to the signature disk and blank check stock, receives the bank statements unopened, is responsible for preparing the bank reconciliation, and no one reviews the checks before they are sent. The disbursement listing does not include check numbers for Board members to ensure that it is a complete listing. In addition, the assistant business manager is an authorized check signer for the fiduciary checking accounts.
- e. The assistant business manager enters all payroll information, generates the payroll, calls the direct deposit information into the bank, receives the bank statement, and no one reviews the direct deposit listing. Salaries expenditures represent over half of the District's expenditures.
- f. Both the assistant business manager and the business manager post journal entries, and none are reviewed.
- g. The School Board receives a disbursement listing without check numbers from the assistant business manager. The financial statement presented to the School Board is a summary created by the business manager, and the financial statement does not include budgetary comparisons. The monthly financial information provided to the School Board includes a bank balance, rather than a general ledger balance.
- h. The cash receipts are not being tied to the deposit report from the food service module by the Business Manager.
- i. The District credit card is maintained in an unlocked drawer in the business office.

Criteria: Internal controls should be in place to provide reasonable assurance that all financial transactions are reviewed and approved before payments are made and reports are generated. Controls also need to be in place to ensure all revenue is processed and recorded correctly. Compliance with all grant terms and related cost principles must be part of any effective internal control system.

Effect: The effectiveness of the internal control system relies on enforcement by management. Small problems can lead to more severe problems, such as questioned costs.

Recommendation: Under these circumstances, the most effective controls lie in (1) management and the Board of Education's knowledge of the District's financial operations and (2) striving to obtain as much segregation of duties as possible so that no one person has complete control of any type of financial transaction. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. Supervision and review functions must be done continually during all phases of the accounting cycle.



**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE  
ACTION PLAN (CONTINUED)  
JUNE 30, 2008**

**B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)**

**Significant Deficiencies -- Material Weaknesses in Internal Control (Continued)**

**2007-1 FINDING: Segregation of Duties (Concluded)**

**Specifically:**

- a. The assistant business manager should not directly receive any cash/check payments. The business manager should review the weekly deposits by comparing them to receipt books from other locations. The bank statement should go to a School Board member or the Superintendent each month unopened, see "d" also. The bank reconciliations should be completed on a monthly basis by the assistant business manager and reviewed by the business manager. Any significant variances should be resolved before completion.
- b. Pre-numbered tickets should be used for activity tickets and at football games, and these tickets should be reconciled to the cash deposited, similar to other cocurricular events of the District.
- c. There should be at least two ticket takers at every school sponsored activity to ensure that all the cash/checks are properly accounted for and remitted to the business office.
- d. The bank statement should go to a School Board member or the Superintendent each month unopened. The School Board member or Superintendent should review the cancelled checks and overall account activity for propriety, including reasonable amounts, recognizable vendors, and proper authorized signatures. The business manager should prepare a monthly check listing (including check numbers) directly from the general ledger software for the School Board meeting. The School Board should review this listing for completeness (first check number follows the check number from the previous month, and there are no gaps in the check number sequence). The two Board members that review invoices before the Board meeting should also review the checks. These reviewed checks should then go to the high school secretary for mailing. The assistant business manager should not be an authorized check signer of the fiduciary checking account.
- e. The Superintendent or a School Board member should review the direct deposit listing before it is submitted to the bank. As mentioned in "d" above, someone other than the assistant business manager should receive the bank statement unopened to review the payroll transfer amount.
- f. All journal entries posted by the assistant business manager should be reviewed by the business manager.
- g. As noted in "d" above, the School board should receive a check listing from the general ledger software each month. The School Board should also receive at the monthly meetings a revenue and expense statement from the general ledger that includes budget to actual comparisons. The monthly report should also give the general ledger cash balance, not the bank balance.
- h. The business manager should be periodically comparing the deposit report from the food service module to the actual cash receipts received.
- i. The District credit card should be maintained in a locked location that only authorized personnel have access to.

Response/Corrective Action Plan: The District strives to attain as much segregation of duties as possible with the staff available. Sally Pflaumer, Business Manager, is responsible for the corrective action plan for this finding.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE  
ACTION PLAN (CONTINUED)  
JUNE 30, 2008**

**B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)**

**Significant Deficiencies -- Material Weaknesses in Internal Control (Continued)**

**2007-2 FINDING: Capital Asset Records**

Condition: Capital asset records were not properly maintained to support the amounts reported for governmental activities capital assets, resulting in lack of control over public assets and inaccurate financial statements.

Criteria: The District has no subsidiary records to support the amount reported for improvements other than buildings. The subsidiary records maintained for capital assets have not been updated for additions or disposals since 1994. Finally, the general ledger balance for capital assets does not agree to the subsidiary records.

Effect: These conditions result in unreliable data being reported for capital assets for governmental activities and lack of safeguards for these assets. In addition, the District's audit report for governmental activities expresses an adverse opinion.

Recommendations: The District needs to establish and maintain adequate capital assets accounting records. The general ledger capital asset balance should be reconciled to the accounting records established.

Response/Corrective Action Plan: The District is aware that the capital assets are not updated and is determining the most efficient way to handle the situation. Sally Pflaumer, Business Manager, is responsible for the corrective action plan for this finding.

**2007-3 FINDING: Disbursement Testing**

Condition: During disbursement testing, we noted the following:

- a. No invoice was available to support several expenditures tested; therefore, we were not able to determine if the expenditure was charged to the proper account.
- b. Several invoices were selected in which the expenditures were allocated between different functions (i.e. high school v.s. middle school or elementary v.s. education media) or between different object codes (i.e. professional services and supplies). There was no documentation on the invoices to support these allocations. In addition, several expenditures were tested that were not coded to the proper account.
- c. Several expenditures selected for testing lacked proper approval.

Questioned Costs: We noted questioned costs of \$1,431 from a sample of \$27,842 for Title I non-payroll expenditures (CFDA # 84.010). The total population of Title I non-payroll expenditures was \$105,914. We noted questioned costs of \$5,654 from a sample of \$22,212 for 21<sup>st</sup> Century non-payroll expenditures (CFDA # 84.287). The total population of 21<sup>st</sup> Century non-payroll expenditures was \$30,319.

Criteria: Internal controls should be in place to provide reasonable assurance that all disbursement transactions are reviewed and approved before payments are made and reports are generated. Compliance with all grant terms and related cost principles must be part of any effective internal control system.

Effect: Problems with proper disbursement controls can lead to severe problems, such as questioned costs.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE  
ACTION PLAN (CONTINUED)  
JUNE 30, 2008**

**B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)**

**Significant Deficiencies -- Material Weaknesses in Internal Control (Continued)**

**2007-3 FINDING: Disbursement Testing (Continued)**

**Recommendations:**

- a. Invoices should be obtained for all expenditures, including those for reimbursement. The invoices should be stored in a logical manner. Invoices should be reconciled to statements to ensure all payments are properly made, but actual payments should only be made from invoices. The business office personnel should ensure that the invoices include enough information to document what the expenditures are for.
- b. Each invoice that is allocated between different functions and different object codes should include documentation for the basis of the allocation.
- c. Each invoice should be approved by appropriate personnel before payment is made.

**Response/Corrective Action Plan:** The District is working to ensure that adequate documentation is maintained for all expenditures. Sally Pflaumer, Business Manager, is responsible for the corrective action plan for this finding.

**2007-4 FINDING: Payroll Testing**

**Condition:** During payroll testing, we noted the following:

- a. We identified errors in calculating gross pay or inaccurate totals on time cards that resulted in immaterial overpayments and underpayments to employees.
- b. We noted several time cards that were not signed by the supervisor.

**Questioned Costs:** None.

**Criteria:** Internal controls should be in place to provide reasonable assurance that all payroll transactions are reviewed and approved before payments are made and reports are generated. Compliance with all grant terms and related cost principles must be part of any effective internal control system.

**Effect:** Problems with proper payroll controls can lead to severe problems, such as questioned costs.

**Recommendations:**

- a. Payroll should be reviewed prior to the electronic submission.
- b. All time cards should be reviewed and signed by supervisors.

**Response/Corrective Action Plan:** The District is working to ensure that adequate documentation is maintained for all expenditures. Sally Pflaumer, Business Manager, is responsible for the corrective action plan for this finding.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE  
ACTION PLAN (CONTINUED)  
JUNE 30, 2008**

**B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)**

**Significant Deficiencies -- Material Weaknesses in Internal Control (Continued)**

**2007-5 FINDING: Deficit Budgeted Fund Balance**

Condition: The budget for the Special Education Fund exceeds the allowable fund balance as allowed by South Dakota Codified Law 13-11-3.2.

Criteria and Effect: The District is in violation of state law.

Recommendation: Budgets for future years cannot project to reduce a fund balance to a deficit fund balance.

Response/Corrective Action Plan: The District will ensure that future budgets do not project to reduce a fund balance to a deficit fund balance. Sally Pflaumer, Business Manager, is responsible for the corrective action plan for this finding.

**2007-7 FINDING: Preparation of Financial Statements**

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for the District at the same time in connection with our audit. This is not unusual for us to do with organizations of the District's size. However, it is our responsibility to inform the School Board that this internal control deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the District's management.

Criteria and Effect: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's financial statements. We are satisfied that the appropriate steps have been taken to provide the District with the completed financial statements.

Recommendation: It is the responsibility of management and the School Board to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: Both management and the School Board have been informed of this process and are confident that the information is accurate and are willing to accept this risk. The Business Manager, Sally Pflaumer, is responsible for the corrective action plan for this finding.

**NEWELL SCHOOL DISTRICT NO. 9-2**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE  
ACTION PLAN (CONCLUDED)  
JUNE 30, 2008**

**B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONCLUDED)**

**Significant Deficiencies -- Material Weaknesses in Internal Control (Concluded)**

**2007-8. FINDING: Internal Control over Significant Accounts**

**Condition:** During the course of our engagement, we proposed material audit adjustments that resulted in a \$899,200 decrease in reported revenues exceeding expenditures. The adjustments included correcting due from other governments, compensated absences, accounts payable, contracts payable, deferred revenue, long-term debt, and bond proceeds.

**Criteria and Effect:** These adjustments were not recorded through the District's existing internal controls, and therefore, resulted in a material misstatement of the District's financial statements. As in past audits, these adjustments were made by us as part of our audit process.

**Recommendation:** We recommend that management record these adjustments, which are necessary to comply with accounting principles generally accepted in the United States and record the adjustments prior to the annual audit in future years.

**Response/Corrective Action Plan:** The District will work on having all adjustments made prior to each annual audit. The Business Manager, Sally Pflaumer, is responsible for the corrective action plan for this finding.

**C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT**

The findings 2007-1, 2007-3, and 2007-4 listed in Part B also relate to the major federal programs the District received, which are listed in this report and in the Schedule of Expenditures of Federal Awards.

**Significant Deficiency-- Material Weakness in Internal Control**

**2007-6 FINDING: Payroll Allocation Documentation**

**Condition:** Adequate documentation to support allocations of payroll expenditures to federal programs was not available.

**Criteria and Effect:** OMB Circular A-87 requires documentation to support allocations of payroll when employees work on single or multiple federal awards. Compliance with all grant terms and related cost principles must be part of any effective internal control system. If significant payroll allocations are not properly documented, it could lead to severe problems, such as questioned costs under OMB Circular A-87. When an employee is allocated entirely to a federal program, a semi-annual certification must be completed.

**Questioned Costs:** We noted questioned costs of \$1,892 from a sample of \$13,940 for Title I payroll expenditures (CFDA # 84.010). The total population of Title I payroll expenditures was \$216,567. We noted questioned costs of \$1,334 from a sample of \$5,082 for 21<sup>st</sup> Century payroll expenditures (CFDA # 84.287). The total population of 21<sup>st</sup> Century payroll expenditures was \$62,823. During payroll testing procedures, we noted questioned costs of \$451, due to a lack of time records, from a sample of \$451 for Special Education payroll expenditures (CFDA # 84.027). The total population of Special Education payroll expenditures was \$92,628.

**Recommendation:** A process should be developed using time records for allocation of payroll and related costs. Documentation to support such allocations should be maintained by pay period for all payroll expenditures allocated to a federal program and other areas. Semi-annual certifications should be completed for all employees charged entirely to one federal program.

**Response/Corrective Action Plan:** The District will ensure that proper documentation is maintained in the future. Sally Pflaumer, Business Manager, is responsible for the corrective action plan for this finding.

NEWELL SCHOOL DISTRICT NO. 9-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	CFDA Numbers	Amount
<i>U.S. Department of Agriculture:</i>		
Pass-Through the S.D. Department of Education:		
Food Distribution	10.550	\$ 5,725
National School Lunch Program (Note 2)	10.555	76,645
<b>Total U.S. Department of Agriculture</b>		<b>82,370</b>
<i>U.S. Department of the Interior:</i>		
Pass-Through the S.D. Department of Education:		
Taylor Grazing	15.206	10,939
National Mineral Leasing (Note 1)	15.207	97,818
<b>Total U.S. Department of the Interior</b>		<b>108,757</b>
<i>U.S. Department of Education:</i>		
Pass-Through the S.D. Department of Education:		
Title I Programs -- Local Educational Agencies (Notes 3 and 6)	84.010	255,310
Special Education -- State Grants (P.L. 99-94-142) (Notes 1 and 4)	84.027	92,628
Special Education -- Preschool Grants (P.L. 99-457) (Notes 1 and 4)	84.173	2,069
Safe and Drug-Free Schools and Communities (Title IV) (Notes 3 and 6)	84.186	7,870
21st Century Grant (Note 3)	84.287	100,721
Innovative Education Program Strategies (Title VI) (Notes 3 and 6)	84.298	2,464
Technology Literacy Challenge Fund (Notes 3 and 6)	84.318	5,043
Title II Part A (Notes 3 and 6)	84.367	78,147
<b>Total U.S. Department of Education</b>		<b>544,252</b>
<i>U.S. Department of Health and Human Services:</i>		
Pass-Through the S.D. Department of Social Services -- Medicaid	93.714	146
<b>Total</b>		<b>\$ 735,525</b>

- Note 1: Federal reimbursements are not based upon specific expenditures; therefore, the amounts reported here represent cash received rather than federal expenditures.
- Note 2: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.
- Note 3: This program was tested as a major program.
- Note 4: These programs make up the Special Education Cluster.
- Note 5: The schedule of expenditures of federal awards is presented on the accrual basis of accounting.
- Note 6: These programs are consolidated in a schoolwide program.

## OTHER REPORTS



<sup>-50-</sup>  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

School Board  
Newell School District No. 9-2  
Newell, South Dakota

We have audited the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **NEWELL SCHOOL DISTRICT NO. 9-2** (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 7, 2009, in which an adverse opinion was expressed on the governmental activities and an unqualified opinion on the business-type activities, each major fund, and the aggregate remaining fund information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Part B, Finding 2007-1, 2007-2, 2007-3, 2007-4, 2007-5, 2007-7, and 2007-8 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiencies described above to be material weaknesses.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings and Questioned Costs as Part B, Finding 2007-5.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Department of Education, the South Dakota Legislature, the governing board and management of the District and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP  
Certified Public Accountants

May 7, 2009



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

School Board  
Newell School District No. 9-2  
Newell, South Dakota

**Compliance**

We have audited the compliance of **NEWELL SCHOOL DISTRICT NO. 9-2** (the District) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in Part B, Finding 2007-3 and Part C, Finding 2007-6, in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding Allowable Costs/Cost Principles that are applicable to its major federal programs – Title I – CFDA #84.010 and 21<sup>st</sup> Century Grant – CFDA #84.287. Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2008.

**Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-1, 2007-3, 2007-4, and 2007-6 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider all items to be material weaknesses.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Department of Education, the South Dakota Legislature, the governing board and management of the District and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP  
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May 7, 2009